

**MINUTES**

**MONTANA SENATE  
56th LEGISLATURE - REGULAR SESSION**

**COMMITTEE ON TAXATION**

**SUBCOMMITTEE ON SALES TAX**

**Call to Order:** By **CHAIRMAN BOB DEPRATU**, on March 17, 1999 at  
9:25 A.M., in Room 413/415 Capitol.

**ROLL CALL**

**Members Present:**

Sen. Bob DePratu, Chairman (R)  
Sen. Bill Glaser (R)  
Sen. Barry "Spook" Stang (D)

**Members Excused:** None

**Members Absent:** None

**Others Present:** Sen. Alvin Ellis, Jr.  
Sen. Dorothy Eck  
Gordon Morris, Montana Association of Counties  
Judy Paynter, Department of Revenue  
Jeff Miller, Department of Revenue  
Jerry Leonard, Department of Revenue

**Staff Present:** Sandy Barnes, Committee Secretary  
Lee Heiman, Legislative Branch

**Please Note:** These are summary minutes. Testimony and  
discussion are paraphrased and condensed.

**Committee Business Summary:**

Bills Discussed: Sales Tax Packages

**DISCUSSION ON SB 135, 143, 157 (SPRAGUE PACKAGE),  
SB 516, 517, 518, 519, 520 AND 523 (GOVERNOR'S PACKAGE)  
AND SB 525, 526, 527 AND 528 (DEVLIN PACKAGE)**

**SEN. DEPRATU** said he would like to wind this part of the process  
up and turn it over to the Department of Revenue so they could  
get a summary done.

**SEN. DEPRATU** reminded the committee that they wanted to discuss contractor gross receipts and incentives and credits on page 3 further. He directed the committee to the Consumption Tax Proposal Comparisons from yesterday, **EXHIBIT (tas60b01)**.

**SEN. STANG** asked if the Department had any information on how many contractors, if the percentage is not lowered, may end up having a substantial amount that they can no longer deduct. **Ms. Paynter** said the contractors would lose about \$2 million a year that they would not be able to take against their tax liabilities. **SEN. STANG** asked how much was collected and then credited back, and **Mr. Miller** said that gross collections from that withholding are in the range of \$6 million, and then it is credited back primarily against business equipment but also corporate license and corporate income, which leaves about \$2 million to \$2.5 million. **Ms. Paynter** went on to explain that if there is an out-of-state contractor who gets a bid, it is the intent that that is left in Montana.

**SEN. STANG** asked if there was any way to tell how much of that amount comes from out-of-state contractors, and **Ms. Paynter** said she did not know. **SEN. STANG** asked if the Department could provide a figure for how much business equipment the contractors have out there that they are taking this credit on so the committee could come up with a better amount. He said it may be okay as it is, but it may also need to be reduced, and he'd like further information to make that decision. **Ms. Paynter** said her sources had told her that presently the \$2 million is now being taken against their business equipment tax, and the contractors did not feel that there was a lot of room to reduce liability or corporate tax, so the \$2 million would mostly be lost.

**SEN. STANG** suggested that the tax should be reduced roughly a third. **Ms. Paynter** said that one of the staff people had said that there might be some challenge to this tax if we started lowering taxes, and she said she had not had an opportunity to explore this with her legal staff.

**SEN. GLASER** said that this tax makes contractors tax collectors for state and local government. He said this is a hidden tax and it serves the purpose of controlling the payments from out-of-state contractors. He said if the tax is moved up or down, all that happens is that the responsibility of the contractor to collect that tax is relieved from local governments and from the state.

**SEN. STANG** said that this has allowed them to level the playing field and make sure that those out-of-state people are paying some tax.

**SEN. DEPRATU** asked about the miscellaneous incentives and whether the committee wanted to leave them in place. **SEN. STANG** said he had studied the list, and his feeling was that they should just be left as they are. The rest of the committee agreed.

**SEN. DEPRATU** said that the next thing was the homestead exemption. He said he liked the 40% of the first \$200,000. **Ms. Paynter** said that, with the homestead exemption and going to one class of property, the Department should run the numbers on whatever the committee decides so that they know what has been done in reality. **SEN. STANG** asked if the Department could run the figures on 40% of the first \$200,000 and 40% of the first \$150,000, and that would give the committee an idea of where they are going. **Ms. Paynter** said they would do that. **SEN. STANG** suggested that the Department take the amount of the exemption that is being given in Sprague's proposal and show what percentage would reach that same amount of tax relief with the value of the house at \$200,000, and **Ms. Paynter** said she would try to do that.

**SEN. DEPRATU** said the next issue from the day before was the inheritance tax, and he said his feeling is that the inheritance tax should go away. **SEN. STANG** asked if there was available revenue to do that, and **Ms. Paynter** said that figure is \$10.6 million. **SEN. STANG** said he would rather see some relief in the income tax arena. **SEN. DEPRATU** said this is a tax that really affects farms and small businesses, and **SEN. ELLIS** reminded the committee that it is a first-dollar tax. **SEN. STANG** agreed, but he said if the legislature is going to do something with the sales tax, it should benefit everyone, not just a few. **SEN. DEPRATU** said he would be inclined to take it away at this point and then when the Department provides the summary, the committee can look at it again. **SEN. STANG** said he would resist that because it should be spread more evenly.

**Motion/Vote:** **SEN. DEPRATU MOVED TO TAKE OUT THE INHERITANCE TAX.**  
**Motion carried 2-1 with Stang voting no.**

Moving to page 4 of the Consumption Tax Proposal Comparisons, EXHIBIT 1, low income tax credit as in Sprague's proposal; motor vehicle, 1%; telephone license tax, no change; mill levies, eliminate 95 mills; BASE, 100% state funded; county-wide transportation, 50/50; county-wide retirement, 80/20.

**Ms. Paynter** asked why it was necessary to eliminate the 95 mills, and **SEN. STANG** said that was what was decided in the Interim Property Tax Committee, that a sales tax would eliminate the mills. It is a policy choice.

**Tom Bilodeau, MEA**, regarding the 80/20 split for the retirement fund, said that presently that is a mandatory county mill, a permissive mill, and this year's retirement levy is \$91 million, which would be pushed to \$100 million by 2001. Currently there is about \$20 million in state GTB money that goes toward that retirement fund. He asked whether moving to 80/20 involves keeping the retirement levy on a mandatory basis to raise the 20% required by the county, and the other 80% will be sales tax revenue supplementing the existing GTB funding, and **SEN. DEPRATU** said that was correct.

**SEN. STANG** asked **Mr. Bilodeau** if he felt the next push could be a statewide teachers' salary, and **Mr. Bilodeau** said that the School Board Association has resisted any attempt to do a statewide salary schedule.

Non-General Fund budgets, no change; over-BASE budgets, no change.

**SEN. STANG** asked about the motor vehicles, and **Mr. Morris** explained that this is the non-levy revenues that would follow the school levies being eliminated, and as a result, there is replacement revenue, then, as those revenues are lost to the 95 mills. **SEN. STANG** suggested that "replaced" be used rather than "eliminated." **Mr. Morris** agreed because these are non-levy revenues that are being replaced by the sales tax.

**SEN. STANG** said there was also a question about the PL874 money and repealing the 95 mills. He said there is some concern that a number of districts will lose some PL874 money because of the way the feds figure the money. **Mr. Bilodeau** said the problem arises because the feds require some showing of local mill effort in order to fully qualify for those federal impact aid monies. The fear is that if that local effort is lost and a county cannot show that local effort to the feds, \$2 million to \$6 million could be jeopardized. **SEN. ELLIS** asked if the local effort for teachers retirement and transportation would qualify, and **Mr. Bilodeau** said he was not sure if those would qualify. The committee asked him to provide that information.

**SEN. STANG** said he would be willing to risk that \$2 million portion, since the total amount was not at risk, and with the state paying 80% of BASE budgets with state dollars, the districts might be better off. **Mr. Morris** said that they had

checked on this matter when creating the bill in 1996, and in a letter from the Denver people, they had been told that there would no impact, and there would be no loss of money. **Ms.**

**Paynter** said she thought the committee should get OPI's comments on this matter.

**Ms. Paynter** asked what the Sprague proposal does for cash reappropriated, and **Mr. Morris** said there is no change to the handling of cash available for reappropriation at the end of the fiscal year, either in regard to schools or local governments. In the case of schools, that has to be used to reduce over-BASE before to BASE, to reduce local levies and not the state contribution to BASE.

Regarding local government, mill levies, **SEN. STANG** asked if that meant that those restrictions would be removed, and **SEN. DEPRATU** said he thought this would mean that they would have to change their amount due to the amount of credits and other things. **SEN. ELLIS** asked which bill package allows a 2% increase in local governments without a vote, and **Mr. Morris** said it was the Sprague package.

**I-105**, repealed. Under non-levy revenue, motor vehicles, **Mr. Morris** said that that tied to the decisions of the committee earlier regarding motor vehicles, and what is being referred to here would be gone. He said that in the bill as introduced, this refers to the 20% of the motor vehicle collections that would be reallocated in the bill to the state. He referred the committee to page 133 of the bill. He said the bill is introduced, puts the tax at 1.5%, and of the collections, 20% goes to the General Fund and 80% remains to be distributed across the tax matrix. He went on to say that if this is lowered to 1%, the 20% distribution would need to be eliminated by way of trying to make up the portion that would be lost to local governments.

**SEN. ELLIS** asked how much is in non-levy revenues, and **SEN. GLASER** said with **SEN. DEVLIN'S** concept in there, it is \$32 million or \$33 million. **Ms. Paynter** said in total non-levy revenue presently, the state gets about \$37 million or \$38 million, so it is probably, total, in the range of \$150 million on non-levy revenue today. She said this is an area that will need to be looked at carefully.

Oil and natural gas, no change; financial institutions, same as Sprague proposal; coal and gas proceeds, same as Sprague proposal; other, same as Sprague; **HB 20** and **SB 417** will be repealed.

**SEN. GLASER** asked what "other" referred to under non-levy revenue, and **Mr. Morris** said that is revenue that is currently by law allocated across the tax matrix. It would be things like the flat tax on oil, gas and coal, and other miscellaneous distributions that are collected and by law have to be spread across the tax matrix. As you eliminate the mills, the distribution percentages go up in terms of the remainder. **SEN. GLASER** asked the Department to give the committee a list of what is in that category and how many dollars are in each category, and **Ms. Paynter** said they would provide that.

**SEN. DEPRATU** asked the Department to provide the committee with a sample of what a bill would look like considering everything that has been discussed, whether there is any money left over after the allocations are taken care of for some income tax relief by Friday morning, and **Ms. Paynter** said she would have something by then.

A discussion ensued regarding the 6 mills and 9 mills. **SEN. ELLIS** said that the 6 mills is a statewide levy and it has to be replaced, but the 9 mills is not statewide. He said those are the mills that are assessed for welfare programs, and there are 12 state-assumed counties that forgive that revenue to the state in order for the state to pick up their costs in this area. **SEN. GLASER** said he had always intended that the 6 mill levy would go away. **SEN. STANG** said the Interim Committee had the assumption that 101 mills would be eliminated statewide.

**Mr. Morris** said the Sprague proposal does eliminate the 6 mills. He said the 9 mills is a state-assumed levy in the 12 state-assumed counties, and that that 9 mills continues but is reduced. **SEN. STANG** said the language in **SB 526** needs to be clear that it does not cover those mills, or that they are covered and there needs to be a way to cover them. He said it is his feeling that this is the language that assures that the state is not going to get back into the property tax business, that all property taxes will come from the local levy.

**Ms. Paynter** said there is a 1.5 mill on the five counties where there is a vo-tech center. It is a state mill that goes into the General Fund, and she wondered if the committee wanted to repeal that. After some discussion, it was decided that that should be left as it is, but that it should be checked carefully.

**SEN. DEPRATU** asked how much additional money will go to the feds because of lack of federal deductibility; in other words, how much more would go to federal income tax because of the changes involved in this sales tax proposal. **Ms. Paynter** said she would try to put something together.

The committee spent some time discussing how this could be sold to the voters of Montana. They also discussed the voting date and implementation date. It was agreed that they would see what the Department presents on Friday and finalize what will be presented to the Taxation Committee.

**ADJOURNMENT**

Adjournment: 10:40 A.M.

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SEN. BOB DEPRATU, Chairman

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SANDY BARNES, Secretary

GD/SB

**EXHIBIT (tas60bad)**